

**Tennessee Board of Regents  
Southwest Tennessee Community College**

**For the Years Ended  
June 30, 2003, and June 30, 2002**

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Director

***Charles K. Bridges, CPA***  
Assistant Director

***Debra D. Bloomingburg, CPA***  
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**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY**

State Capitol  
Nashville, Tennessee 37243-0260  
(615) 741-2501

**John G. Morgan**  
Comptroller

August 12, 2004

The Honorable Phil Bredezen, Governor  
and

Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243  
and

The Honorable Charles W. Manning, Chancellor  
Tennessee Board of Regents  
1415 Murfreesboro Road, Suite 350  
Nashville, Tennessee 37217  
and

Dr. Nathan L. Essex, President  
Southwest Tennessee Community College  
5983 Macon Cove  
Memphis, Tennessee 38134

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Southwest Tennessee Community College, for the years ended June 30, 2003, and June 30, 2002. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance resulted in no audit findings.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/cj  
04/041

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Southwest Tennessee Community College**  
For the Years Ended June 30, 2003, and June 30, 2002

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## AUDIT OBJECTIVES

The objectives of the audit were to consider the college's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grants; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

## AUDIT FINDINGS

The audit report contains no findings.

## OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

**Audit Report**  
**Tennessee Board of Regents**  
**Southwest Tennessee Community College**  
**For the Years Ended June 30, 2003, and June 30, 2002**

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**Tennessee Board of Regents  
Southwest Tennessee Community College  
For the Years Ended June 30, 2003, and June 30, 2002**

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**INTRODUCTION**

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**POST-AUDIT AUTHORITY**

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Southwest Tennessee Community College. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

**BACKGROUND**

During the 1999 session, the 101<sup>st</sup> General Assembly amended *Tennessee Code Annotated*, Title 49, Chapter 8, to create a new community college subsequently named Southwest Tennessee Community College. The legislation abolished Shelby State Community College and State Technical Institute at Memphis as of July 1, 2000, and transferred its campuses, property, programs, assets, rights, duties, obligations, and debts to Southwest Tennessee Community College.

**ORGANIZATION**

The governance of Southwest Tennessee Community College is vested in the Tennessee Board of Regents. The Governor, the Commissioner of Education, the Commissioner of Agriculture, and the Director of the Tennessee Higher Education Commission serve *ex officio* on this board. The chief administrative officer of the college is the president, who is assisted and advised by members of the faculty and administrative staff.

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## AUDIT SCOPE

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The audit was limited to the period July 1, 2001, through June 30, 2003, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Financial statements are presented for the years ended June 30, 2003, and June 30, 2002. Southwest Tennessee Community College is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

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## OBJECTIVES OF THE AUDIT

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The objectives of the audit were

1. to consider the college's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, contracts, and grants;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

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## PRIOR AUDIT FINDING

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Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The college filed its report with the Department of Audit on January 9, 2003. A follow-up of the prior audit finding was conducted as part of the current audit.



## **RESOLVED AUDIT FINDING**

The current audit disclosed that the college has corrected a previous audit finding concerning weak internal controls related to restricted fund accounts.

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## **OBSERVATIONS AND COMMENTS**

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Southwest Tennessee Community College serves as the lead institution under an agreement with the Tennessee Technology Center at Memphis. Under this agreement, Southwest Tennessee Community College performs the accounting and reporting functions for the center. The chief administrative officer of the center is the director, who is assisted and advised by members of the faculty and administrative staff. The director is responsible to the Chancellor of the Tennessee Board of Regents.

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## **RESULTS OF THE AUDIT**

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### **AUDIT CONCLUSIONS**

#### Internal Control

As part of the audit of the college's financial statements for the years ended June 30, 2003, and June 30, 2002, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

#### Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the college's financial statements.



**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT**

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**Report on Compliance and on Internal Control  
Over Financial Reporting Based on an Audit of  
Financial Statements Performed in Accordance With  
*Government Auditing Standards***

May 6, 2004

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of Southwest Tennessee Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the years ended June 30, 2003, and June 30, 2002, and have issued our report thereon dated May 6, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. As discussed in Note 12, during the year ended June 30, 2002, the college implemented GASB Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. The college also implemented GASB Statement 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, and GASB Statement 38, *Certain Financial Statement Note Disclosures*.

Compliance

As part of obtaining reasonable assurance about whether the college's financial statements are free of material misstatement, we performed tests of the college's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that

The Honorable John G. Morgan  
May 6, 2004  
Page Two

are required to be reported under *Government Auditing Standards*.

We noted certain immaterial instances of noncompliance, which we have reported to the college's management in a separate letter.

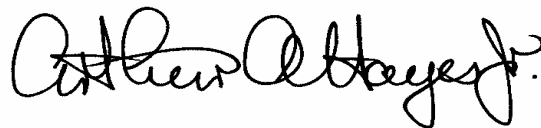
#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the college's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted certain matters involving the internal control over financial reporting, which we have reported to the college's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

A handwritten signature in black ink, appearing to read "Arthur A. Hayes, Jr.", with a stylized, cursive script.

Arthur A. Hayes, Jr., CPA,  
Director

AAH/cj



**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT  
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NASHVILLE, TENNESSEE 37243-0264  
PHONE (615) 401-7897  
FAX (615) 532-2765**

**Independent Auditor's Report**

May 6, 2004

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying statements of net assets of Southwest Tennessee Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 2003, and June 30, 2002, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the college's management. Our responsibility is to express an opinion on these financial statements, based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, Southwest Tennessee Community College, as of June 30, 2003, and June 30, 2002, and the revenues, expenses, and changes in net assets and the cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

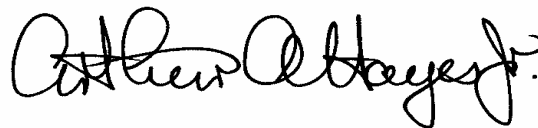
The Honorable John G. Morgan  
May 6, 2004  
Page Two

As discussed in Note 12, during the year ended June 30, 2002, the college implemented GASB Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. The college also implemented GASB Statement 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, and GASB Statement 38, *Certain Financial Statement Note Disclosures*.

The management's discussion and analysis on pages 8 through 19 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 6, 2004, on our consideration of the college's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink, reading "Arthur A. Hayes, Jr." with a stylized, cursive script.

Arthur A. Hayes, Jr., CPA,  
Director

AAH/cj

## **SOUTHWEST TENNESSEE COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of Southwest Tennessee Community College's annual financial report presents a discussion and analysis of the financial performance of the college during the fiscal year ended June 30, 2003, with comparative information presented for the fiscal year ended June 30, 2002. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the financial statements and notes. The financial statements, notes, and this discussion are the responsibility of management.

### **Using This Annual Report**

This report consists of three basic financial statements. The Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows provide information on Southwest Tennessee Community College as a whole and present a long-term view of the college's finances.

### **The Statement of Net Assets**

The Statement of Net Assets presents the financial position of the college at the end of the fiscal year and includes all assets and liabilities of the college. The difference between total assets and total liabilities—net assets—is an indicator of the current financial condition of the college. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the college's equity in property, plant, and equipment owned by the college. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the college but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the institution for any lawful purpose of the institution.

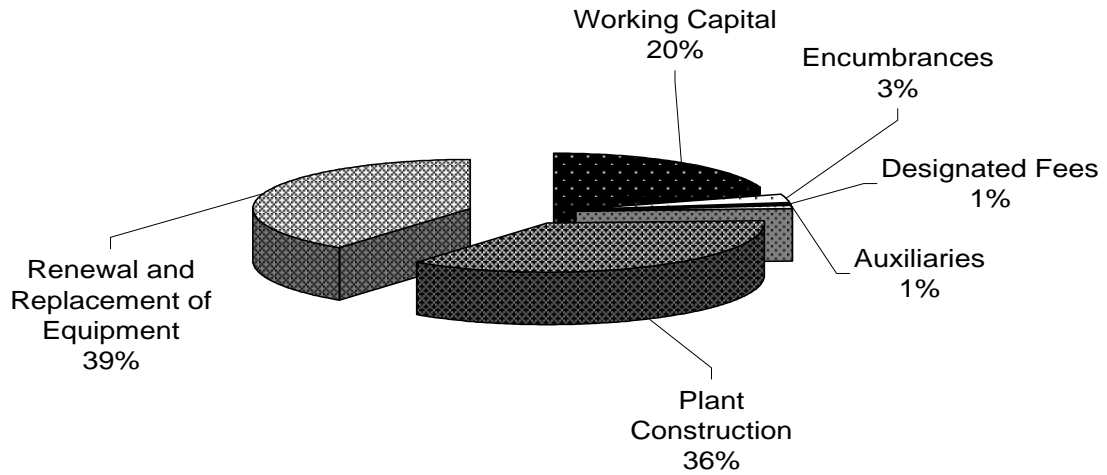
**Statement of Net Assets (in thousands of dollars)**

	<u>2003</u>	<u>2002</u>
<b>Assets:</b>		
Current assets	\$ 5,363	\$ 6,381
Capital assets, net	40,038	40,611
Other assets	<u>18,385</u>	<u>14,127</u>
<b>Total Assets</b>	<u>\$ 63,786</u>	<u>\$ 61,119</u>
<b>Liabilities:</b>		
Current liabilities	\$ 5,363	\$ 5,230
Noncurrent liabilities	<u>4,119</u>	<u>3,688</u>
<b>Total Liabilities</b>	<u>\$ 9,482</u>	<u>\$ 8,918</u>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	\$ 38,250	\$ 38,731
Restricted – nonexpendable	97	99
Restricted – expendable	732	625
Unrestricted	<u>15,225</u>	<u>12,746</u>
<b>Total Net Assets</b>	<u>\$ 54,304</u>	<u>\$ 52,201</u>

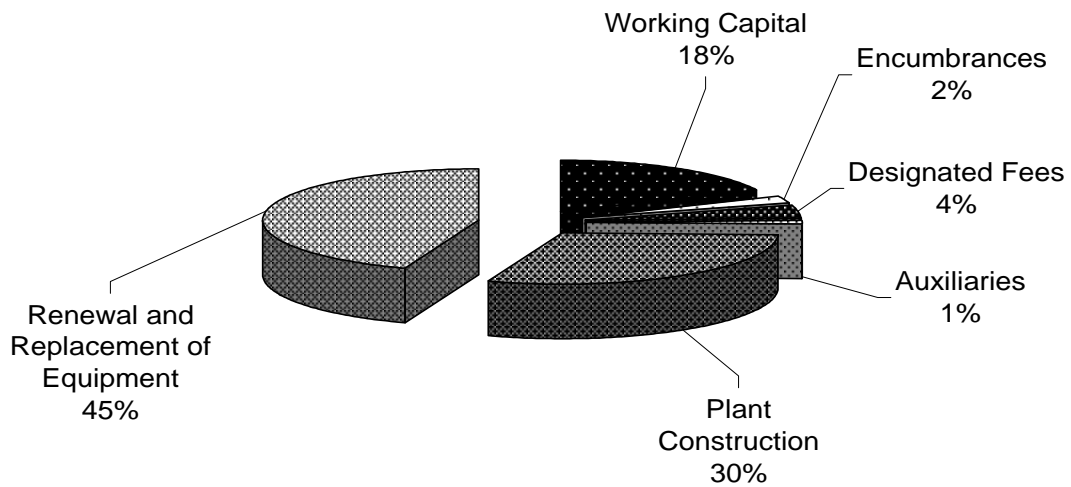
- Current assets decreased due to the decrease in cash (24%) because of decreases in accounts payable and compensated absences.
- The change in other assets is the net of an increase in noncurrent cash and a decrease in noncurrent receivables due to the elimination of aged account balances and an increase in collection efforts.
- Current liabilities increased 3% due to increases in accrued liabilities, deferred revenues, and deposits held in custody for others, net of a decrease in accounts payable. Additionally, compensated absences decreased due to a change in distribution of compensated absences between current and noncurrent liabilities.
- Noncurrent liabilities increased due to the shift in compensated absences between current and noncurrent liabilities.
- Restricted expendable net assets increased 17% due to the increase in instructional grant and contract fund balances.

Many of the college's unrestricted net assets have been designated or reserved for specific purposes such as: repairs and replacement of equipment, and capital projects. The following graph shows the allocations:

### 2003 Designated Unrestricted Net Assets



### 2002 Designated Unrestricted Net Assets





- The requirement for working capital increased by 25% due primarily to the increase in accounts receivable.
- The allocation of technology access fee receipts over expenditures decreased from \$569,384.16 to \$41,513.43, a 93% decrease.

### **The Statement of Revenues, Expenses, and Changes in Net Assets**

The Statement of Revenues, Expenses, and Changes in Net Assets presents the operating results of the college, as well as the nonoperating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered nonoperating revenues according to generally accepted accounting principles.

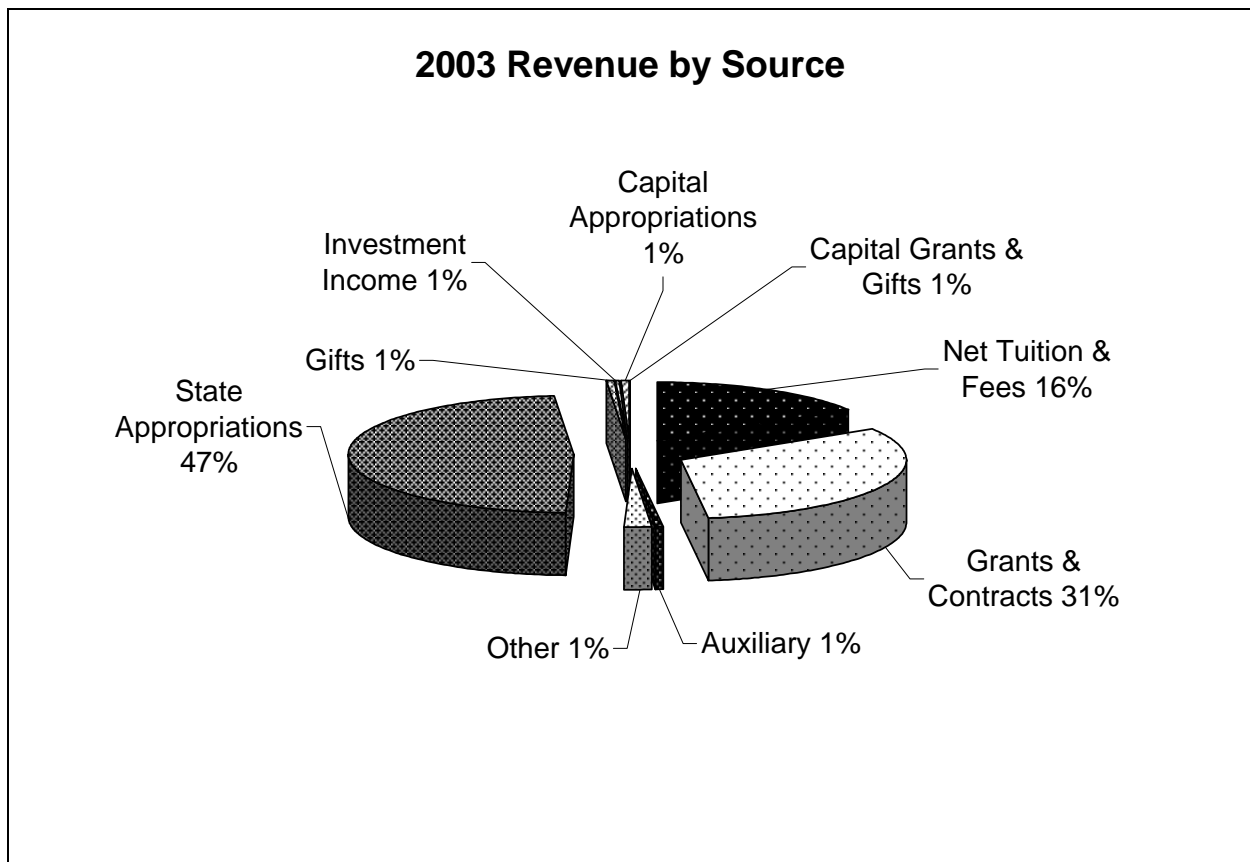
#### **Statement of Revenues, Expenses, and Changes in Net Assets (in thousands of dollars)**

	<u>2003</u>	<u>2002</u>
<b>Operating revenues:</b>		
Net tuition and fees	\$ 11,769	\$ 11,597
Grants and contracts	23,258	19,909
Auxiliary	491	492
Other	<u>1,398</u>	<u>2,360</u>
<b>Total operating revenues</b>	\$ 36,916	\$ 34,358
Operating expenses	<u>\$ 70,719</u>	<u>\$ 70,045</u>
<b>Operating loss</b>	(33,803)	(35,687)
<b>Nonoperating revenues and expenses:</b>		
State appropriations	\$ 35,195	\$ 35,542
Gifts	241	245
Investment income	278	347
Other revenues and expenses	<u>(213)</u>	<u>(59)</u>
<b>Total nonoperating revenues and expenses</b>	\$ 35,501	\$ 36,075
<b>Income (loss) before other revenues, expenses, gains, or losses</b>	<u>\$ 1,698</u>	<u>\$ 388</u>
<b>Other revenues, expenses, gains, or losses:</b>		
Capital appropriations	\$ 385	\$ 1,660
Capital grants and gifts	20	33
Other	<u>-</u>	<u>(7)</u>
<b>Total other revenues, expenses, gains, or losses</b>	\$ 405	\$ 1,686
<b>Increase (decrease) in net assets</b>	<u>\$ 2,103</u>	<u>\$ 2,074</u>

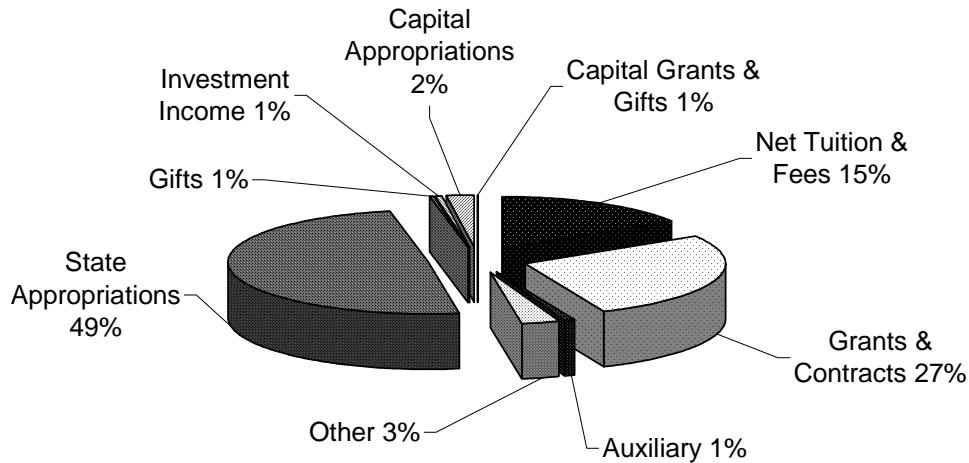
<b>Net assets at beginning of year, as originally reported</b>	\$ 52,201	\$ 77,071
Cumulative effect of changes in accounting principle	-	(26,648)
<b>Net asset at beginning of period, restated</b>	<u>\$ 52,201</u>	<u>\$ 50,423</u>
Prior period adjustment	-	(296)
<b>Net assets at end of year</b>	<u>\$ 54,304</u>	<u>\$ 52,201</u>

### Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which were used to fund the college's operating activities for the year ended June 30, 2003, and the year ended June 30, 2002.



### 2002 Revenue by Source



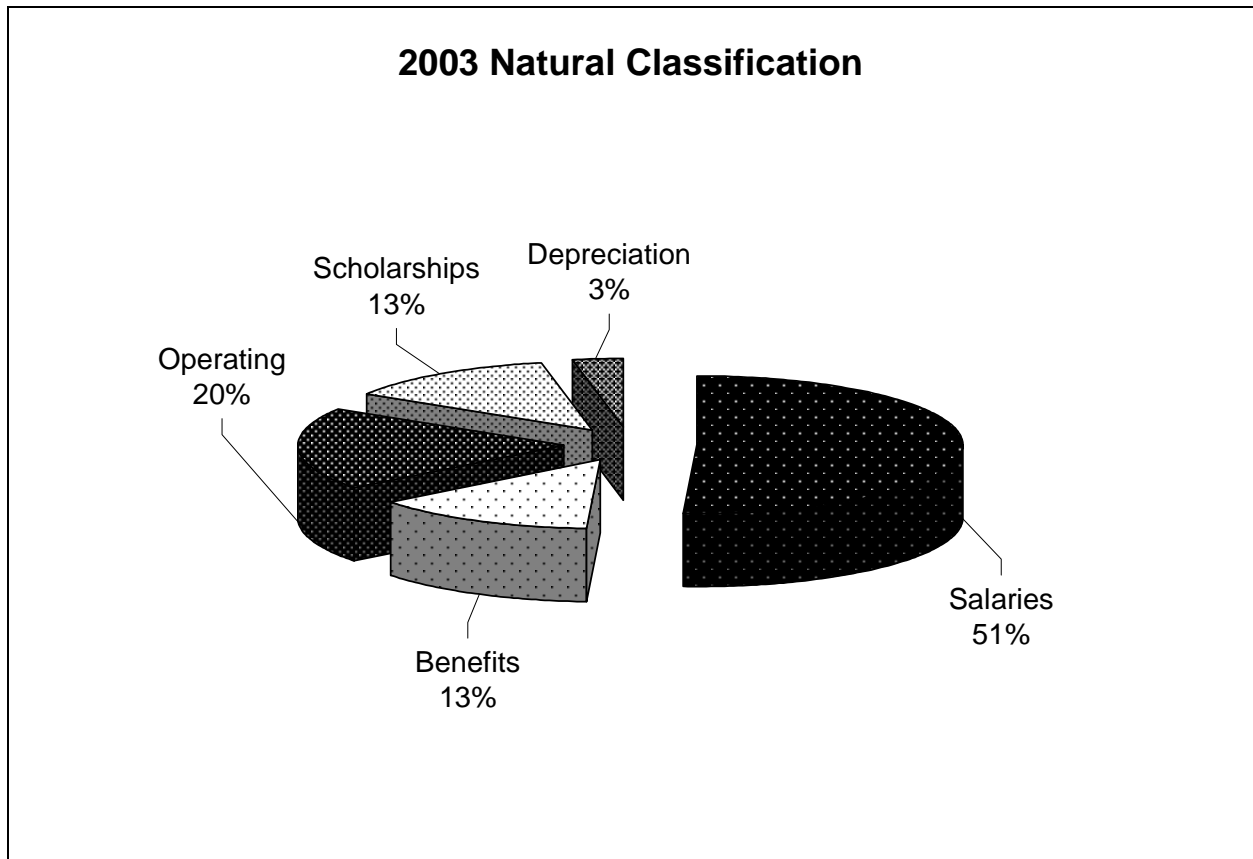
- Investment income decreased 20% due to lower LGIP and bank interest rates.
- Capital appropriations decreased due to a decrease in state bond fund project expenditures. In the fiscal year ending June 30, 2002, \$1,659,642.04 was expended for projects while in the fiscal year ending June 30, 2003, project expenditures were only \$384,586.05.
- The decrease of \$13,350 in gifts for capital grants and gifts is attributable to the decrease in gifts-in-kind of such capital items as library books and instructional equipment.
- Other revenues decreased due to a fund addition included in fiscal year 2001-2002 for prior years' reevaluation of library holdings not applicable in fiscal year 2002-2003.

### Expenses

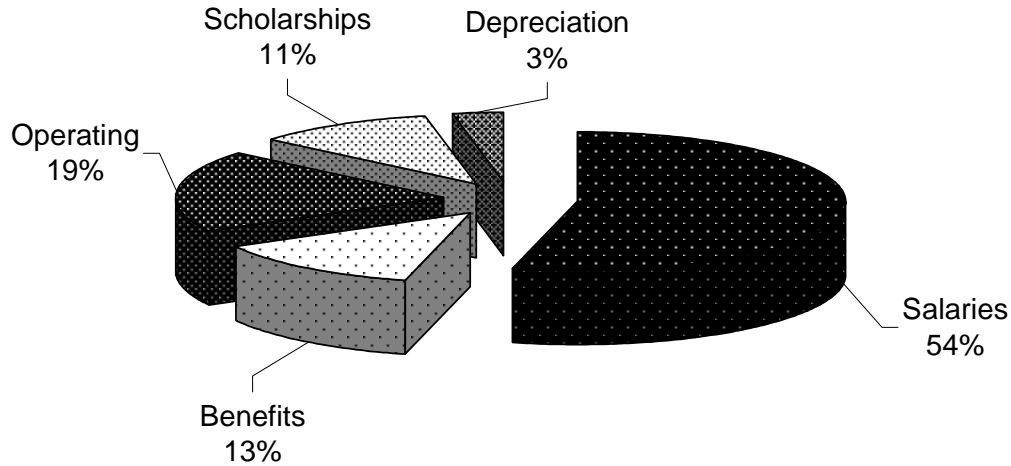
Operating expenses can be displayed in two formats, natural classification and program classification. Both formats are displayed below.

*Natural Classification ( in thousands of dollars)*

	<u>2003</u>	<u>2002</u>
Salaries	\$ 35,879	\$ 37,729
Benefits	9,617	9,167
Operating	13,881	13,453
Scholarships	9,137	7,559
Depreciation	<u>2,205</u>	<u>2,137</u>
Total expenses	<u>\$ 70,719</u>	<u>\$ 70,045</u>



## 2002 Natural Classification

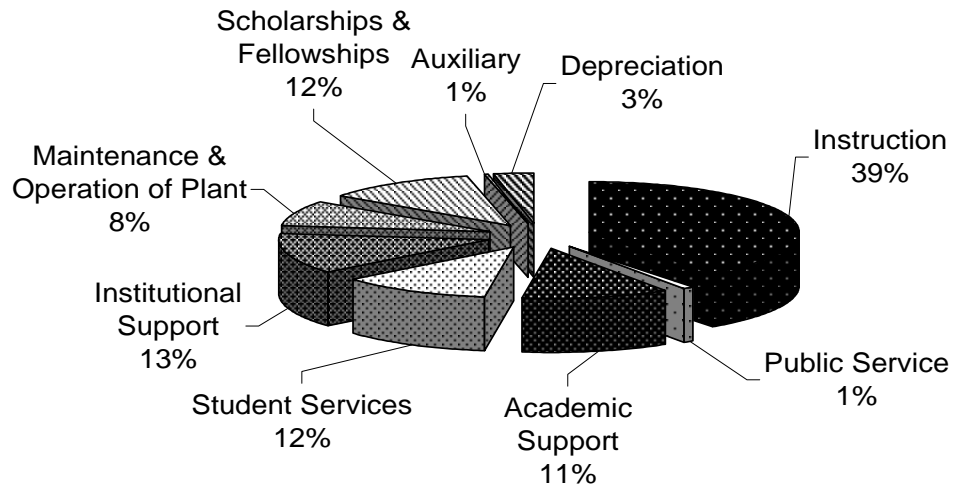


- The college has experienced significant attrition in personnel over the past two fiscal years. Few positions were filled during fiscal year 2003 due to the uncertainty of the magnitude of pending state funding reductions. Salaries and wages decreased 5% over the previous fiscal year while total benefits increased 5% due in large part to the major increase in health insurance benefits.
- Scholarships and fellowships increased 21% due to the increase in Pell grant awards.

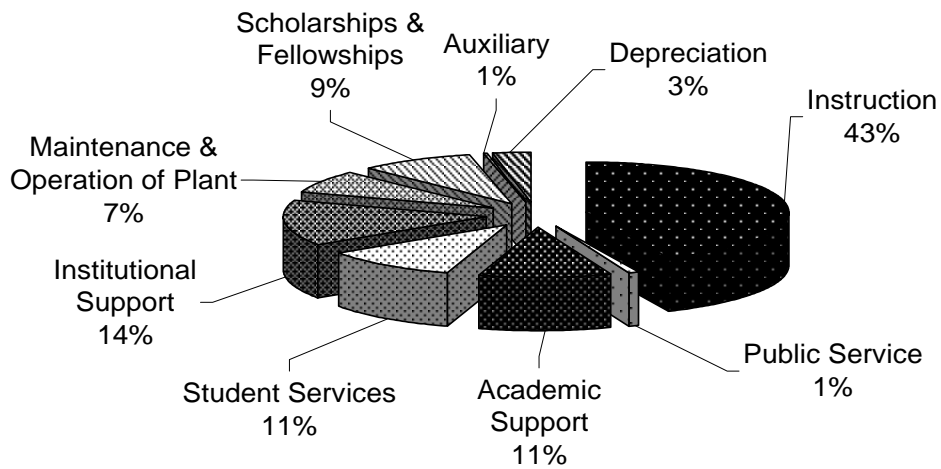
### *Program Classification (in thousands of dollars)*

	<u>2003</u>	<u>2002</u>
Instruction	\$ 28,214	\$ 30,305
Public Service	624	634
Academic Support	8,148	7,434
Student Services	8,248	7,614
Institutional Support	9,212	10,291
Maintenance & Operation Plant	5,573	4,994
Scholarships & Fellowships	8,295	6,442
Auxiliary	200	194
Depreciation	<u>2,205</u>	<u>2,137</u>
Total	<u>\$ 70,719</u>	<u>\$ 70,045</u>

### 2003 Program Classification



### 2002 Program Classification



- The college's functional areas include Instruction, Public Service, Academic Support, Student Services, Institutional Support, Maintenance and Operation of Plant, and Scholarships and Fellowships. The college's utilization of funds by functional area demonstrates its financial commitment to its basic mission and defines the scope of instructional programs and support services.
- Unrestricted Instruction decreased 7% due largely to faculty and staff attrition.
- Unrestricted Academic Support increased 10% due to increases in the subcategories of Libraries and Academic Computer Support. Additionally, increases in expenditures were incurred for technology access and classroom furniture additions.
- Unrestricted Student Services increased 8% in the areas of Financial Aid Administration and Student Admissions/Records.
- The net decrease of 12% in Institutional Support is due to the following: (1) Unrestricted (3% decrease)-final costs of the consolidation occurred in fiscal year 2001-2002, (2) Restricted (4% decrease)-administrative costs of the Families First programs decreased while participants in the Workforce Investment Network increased, (3) Plant Funds - Due to the reduction in bond fund project expenditures the state bond fund administrative cost decreased \$171,169; expenditures for the Master Plan decreased \$107,957.
- Unrestricted Maintenance and Operation of Plant expenditures increased 12% for deferred maintenance projects.
- Restricted Scholarships and Fellowships increased 29% due to substantial increases in both the number of recipients and amounts of Pell Grant awards.

### **The Statement of Cash Flows**

The Statement of Cash Flows provides information about cash receipts and cash payments during the year. This statement also assists users in assessing the college's ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

#### **Statement of Cash Flows (in thousands of dollars)**

	<u>2003</u>	<u>2002</u>
<b>Cash provided (used) by:</b>		
Operating activities	\$ (31,059)	\$ (34,088)
Noncapital financing activities	36,455	34,426
Capital and related financing activities	(1,531)	(1,293)
Investing activities	<u>279</u>	<u>559</u>
<b>Net increase (decrease) in cash</b>	\$ 4,144	\$ (396)
<b>Cash, beginning of year</b>	<u>14,111</u>	<u>14,507</u>
<b>Cash, end of year</b>	<u>\$ 18,255</u>	<u>\$ 14,111</u>

- Net cash flows used by operating activities increased from fiscal year 2002 by 11%. Operating revenues increased 7% while operating expenses only increased 1%. Revenue increases were realized in student tuition and fees (net of scholarship allowances) (2%) and governmental grants and contracts (17%). Decreases in expenditures occurred in both personnel costs (due to substantial employee attrition net of an increase in health insurance). Scholarships increased 20.9% due to the increased number of Pell recipients and award amounts. Other expenditures increased only 3%.
- Cash increased by \$3,643,984 (26%), thereby increasing the college's liquidity.

## **Capital Assets and Debt Administration**

### *Capital Assets*

At June 30, 2003, Southwest Tennessee Community College had \$40,038,336.81 invested in capital assets, net of accumulated depreciation of \$26,354,810.46. Depreciation charges totaled \$2,204,772.07 for the current fiscal year. Details of these assets are shown below.

#### **Schedule of Capital Assets, Net of Depreciation (in thousands of dollars)**

	<u>2003</u>	<u>2002</u>
Land	\$ 4,824	\$ 4,824
Land improvements & infrastructure	1,881	2,036
Buildings	26,896	28,039
Equipment	2,521	2,054
Library holdings	1,293	1,245
Projects in progress	2,623	2,412

- The decrease in land improvements and infrastructure is due to the following: no additional improvements occurred in fiscal year 2002-2003, and 1983 improvements were fully depreciated and eliminated from the asset balance.

State Bond Authority capital projects-in-progress include the Midtown Mechanical Upgrade (\$2,600,000) and the Macon Cove Campus Mechanical and Safety Upgrade (\$400,000). The budgets for other State Bond Authority projects total \$2,875,755.

An addition of \$1,539,167 from general funds was dedicated to local plant fund projects in fiscal year 2003. The local unexpended plant fund balance at year end was \$5,509,535. Designated projects include parking improvements/additions, property renovations, special projects, Gill Campus renovation, ADA improvements, the Renovation of E-building, classroom furniture replacements, and building maintenance/replacement projects.

An addition of \$1,500,000 from general funds was dedicated to the Information Systems renewal and replacement fund in fiscal year 2003. The total renewal and replacement fund balance at year end is \$6,093,173. A total of \$530,386 was expended in 2003 for the college's computer



infrastructure, faculty/staff PC upgrades, the acquisition of a high-speed copier, motorpool vehicle replacements, communication equipment, and food service equipment. Planned renewal and replacement expenditures of \$1,625,000 for fiscal year 2004 include a continued commitment to upgrading and replacing the college's capital assets. More detailed information about the college's capital assets is presented in Note 6 to the financial statements.

### *Debt*

At June 30, 2003, the college had \$1,788,203.60 in debt outstanding. The table below summarizes these amounts by type of debt instrument.

#### Tennessee State School Bond Authority Bonds

Property Acquisition I	\$ 1,023,722.02
Property Acquisition II	529,957.09
Chillers CFC Conversion	<u>234,524.49</u>
	<u>\$1,788,203.60</u>

The college did not incur any additional debt in fiscal year 2003. A debt repayment of \$91,060.46 was made during the year. Fitch, Moody's Investors Service, and Standard & Poor's have rated the Tennessee State School Bond Authority bonds AA, Aa3, and AA, respectively.

More detailed information about the college's long-term liabilities is presented in Note 7 to the financial statements.

### **Economic Factors That Will Affect the Future**

The financial stability of Southwest is closely tied to that of the State of Tennessee. State appropriations constitute 62% of total unrestricted revenues. Tuition and fee revenues are the second largest source of funding at 35%. All state colleges and universities sustained a 5% impoundment of appropriations late in fiscal year 2003, and the state's base appropriation for fiscal 2003-2004 was reduced by 9%. Student fees will increase 14% effective fall term 2003, and the future effect of this large increase on enrollment is unknown. However, past history demonstrates that enrollment at two-year colleges generally increases during economic downswings, as the local workforce seeks retraining in order to become more competitive in the job market. Another factor is student accounts receivable balances. These receivables continue to increase due to financial aid repayment/refund regulations, thus increasing working capital and reducing the availability of unrestricted net assets for current operations.

### **Request for Information**

This financial report is designed to provide a general overview of the institution's finances for all those with an interest in the college's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to Susan Rains, Executive Director of Finance, 5983 Macon Cove, Memphis, TN 38134.

**Southwest Tennessee Community College**  
**Statements of Net Assets**  
**June 30, 2003, With Comparative Figures at June 30, 2002**

	<b>FY 2003</b>	<b>FY 2002</b>
<b>ASSETS</b>		
Current assets:		
Cash (Notes 2 and 3)	\$ 1,692,077.81	\$ 3,706,776.48
Short-term investments (Note 4)	20,926.33	21,939.56
Accounts and grants receivable (net) (Note 5)	3,589,200.02	2,568,807.01
Inventories (at lower of cost or market)	57,666.26	83,302.91
Prepaid expenses and deferred charges	2,878.96	-
Accrued interest receivable	687.42	1,008.10
Total current assets	<u>5,363,436.80</u>	<u>6,381,834.06</u>
Noncurrent assets:		
Cash (Notes 2 and 3)	16,563,000.86	10,404,382.11
Investments (Note 4)	21,393.53	20,937.45
Accounts and grants receivable (net) (Note 5)	1,799,863.15	3,701,494.71
Capital assets (net) (Note 6)	40,038,336.81	40,610,510.61
Total noncurrent assets	<u>58,422,594.35</u>	<u>54,737,324.88</u>
Total assets	<u>\$ 63,786,031.15</u>	<u>\$ 61,119,158.94</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 107,390.18	\$ 471,968.58
Accrued liabilities	1,495,174.73	1,374,272.89
Deferred revenue	1,456,040.38	1,276,551.84
Compensated absences (Note 7)	426,801.92	956,619.11
Accrued interest payable	14,392.49	15,158.45
Long-term liabilities, current portion (Note 7)	95,208.76	91,060.46
Deposits held in custody for others	1,672,442.79	945,938.10
Other liabilities	95,980.47	97,991.87
Total current liabilities	<u>5,363,431.72</u>	<u>5,229,561.30</u>
Noncurrent liabilities:		
Compensated absences (Note 7)	2,425,734.28	1,899,871.00
Long-term liabilities (Note 7)	1,692,994.84	1,788,203.60
Total noncurrent liabilities	<u>4,118,729.12</u>	<u>3,688,074.60</u>
Total liabilities	<u>\$ 9,482,160.84</u>	<u>\$ 8,917,635.90</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	\$ 38,250,133.21	\$ 38,731,246.55
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	62,253.85	61,797.77
Other	34,480.64	36,970.32
Expendable:		
Scholarships and fellowships	118,705.48	160,960.78
Instructional department uses	469,610.45	335,179.51
Other	144,138.24	128,544.85
Unrestricted (Note 8)	15,224,548.44	12,746,823.26
Total net assets	<u>\$ 54,303,870.31</u>	<u>\$ 52,201,523.04</u>

The notes to the financial statements are an integral part of this statement.

**Southwest Tennessee Community College**  
**Statements of Revenues, Expenses, and Changes in Net Assets**  
**For the Year Ended June 30, 2003, With Comparative Figures for the Year Ended June 30, 2002**

	<b>FY 2003</b>	<b>FY 2002</b>
<b>REVENUES</b>		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of \$7,615,405.86 for the year ended for the year ended June 30, 2003, and \$6,141,803.96 for the year ended June 30, 2002)	\$ 11,768,539.29	\$ 11,597,214.06
Governmental grants and contracts	22,666,795.46	19,308,349.35
Non-governmental grants and contracts	591,368.07	600,703.32
Sales and services of educational departments	4,017.00	3,763.35
Auxiliary enterprises:		
Bookstore	470,999.99	457,629.43
Food service	20,468.92	34,159.39
Other operating revenues	1,394,163.41	2,356,676.64
Total operating revenues	<u>36,916,352.14</u>	<u>34,358,495.54</u>
<b>EXPENSES</b>		
Operating Expenses: (Note 15)		
Salaries and wages	35,878,908.56	37,728,880.93
Benefits	9,616,867.45	9,167,556.93
Utilities, supplies, and other services	13,881,306.35	13,452,919.08
Scholarships and fellowships	9,137,201.35	7,558,932.18
Depreciation expense	2,204,772.07	2,136,561.21
Total operating expenses	<u>70,719,055.78</u>	<u>70,044,850.33</u>
Operating income (loss)	<u>(33,802,703.64)</u>	<u>(35,686,354.79)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	35,194,910.00	35,542,410.00
Gifts	240,774.12	244,523.32
Investment income	277,851.17	346,985.79
Interest on capital asset-related debt	(87,247.95)	(83,982.36)
Other non-operating revenues/(expenses)	(125,676.48)	24,710.54
Net nonoperating revenues	<u>35,500,610.86</u>	<u>36,074,647.29</u>
Income before other revenues, expenses gains, or losses	<u>1,697,907.22</u>	<u>388,292.50</u>
Capital appropriations	384,586.05	1,659,642.04
Capital grants and gifts	19,854.00	33,204.00
Other	-	(6,585.50)
Total other revenues	<u>404,440.05</u>	<u>1,686,260.54</u>
Increase (decrease) in net assets	<u>2,102,347.27</u>	<u>2,074,553.04</u>
<b>NET ASSETS</b>		
Net assets - beginning of year, as originally reported	52,201,523.04	77,071,744.30
Cumulative effect of changes in accounting principle: (Note 12)		
Adoption of capitalization criteria for buildings & additions	-	(5,060,497.76)
Adoption of depreciation for capital assets	-	(22,466,338.09)
Deferred revenue recognition	-	878,033.02
Net assets - beginning of year, as restated	<u>52,201,523.04</u>	<u>50,422,941.47</u>
Prior period adjustment (Note 16)	-	(295,971.47)
Net assets - end of year	<u>\$ 54,303,870.31</u>	<u>\$ 52,201,523.04</u>

The notes to the financial statements are an integral part of this statement.

**Southwest Tennessee Community College**  
**Statements of Cash Flows**  
**For the Year Ended June 30, 2003, With Comparative Figures for the Year Ended June 30, 2002**

	<b>FY 2003</b>	<b>FY 2002</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and fees	\$ 10,991,196.66	\$ 10,381,924.45
Grants and contracts	24,521,594.44	20,128,023.85
Sales and services of educational activities	4,017.00	7,289.65
Payments to suppliers and vendors	(14,152,391.65)	(13,667,968.43)
Payments to employees	(35,861,440.37)	(37,328,075.89)
Payments for benefits	(9,440,583.23)	(8,216,552.98)
Payments for scholarships and fellowships	(9,126,107.46)	(7,615,013.81)
Auxiliary enterprise charges:		
Bookstore	452,917.34	511,579.68
Food services	21,403.88	30,556.90
Other receipts (payments)	1,530,047.33	1,680,111.78
Net cash flows provided (used) by operating activities	<u>(31,059,346.06)</u>	<u>(34,088,124.80)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	35,475,610.00	35,229,910.00
Gifts and grants received for other than capital or endowment purposes	248,774.12	222,159.32
Changes in deposits held for others	726,504.69	49,364.34
Other noncapital financing receipts (payments)	4,067.72	(1,075,522.52)
Net cash flows provided (used) by noncapital financing activities	<u>36,454,956.53</u>	<u>34,425,911.14</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from capital debt	-	254,702.57
Capital - state appropriation	384,586.05	1,659,642.04
Capital grants and gifts received	19,854.00	33,204.00
Purchase of capital assets and construction	(1,632,598.27)	(1,847,340.95)
Principal paid on capital debt	(91,060.46)	(327,494.61)
Interest paid on capital	(88,013.91)	(83,032.65)
Other capital and related financing receipts (payments)	(123,186.80)	(982,332.28)
Net cash flows provided (used) by capital and related financing activities	<u>(1,530,419.39)</u>	<u>(1,292,651.88)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	-	200,000.00
Income on investments	278,171.85	358,640.88
Other investing receipts (payments)	557.15	400.76
Net cash provided (used) by investing activities	<u>278,729.00</u>	<u>559,041.64</u>
Net increase (decrease) in cash	4,143,920.08	(395,823.90)
Cash - beginning of year	14,111,158.59	14,506,982.49
Cash - end of year (Note 2)	<u>\$ 18,255,078.67</u>	<u>\$ 14,111,158.59</u>

**Southwest Tennessee Community College**  
**Statements of Cash Flows**  
**For the Year Ended June 30, 2003, With Comparative Figures for the Year Ended June 30, 2002**

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**RECONCILIATION OF OPERATING LOSS TO NET CASH  
PROVIDED (USED) BY OPERATING ACTIVITIES**

Operating loss	\$ (33,802,703.64)	\$ (35,686,354.79)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation expense	2,204,772.07	2,136,561.21
Change in assets and liabilities:		
Receivables, net	591,098.69	(1,174,466.95)
Inventories	25,636.65	(33,233.93)
Prepaid/deferred items	(7,996.50)	323,980.83
Accounts payable	(273,654.46)	(139,396.50)
Accrued liabilities	27,966.50	109,674.11
Deferred revenues	179,488.54	(50,986.79)
Deposits	-	(16,785.07)
Compensated absences	(3,953.91)	442,883.08
Net cash provided (used) by operating activities	<u><u>\$ (31,059,346.06)</u></u>	<u><u>\$ (34,088,124.80)</u></u>

**Noncash transactions**

Unrealized gain on investment	\$ 557.15	\$ 400.76
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The notes to the financial statements are an integral part of this statement.

**Tennessee Board of Regents  
Southwest Tennessee Community College  
Notes to the Financial Statements  
June 30, 2003, and June 30, 2002**

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The college is a part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

**Basis of Presentation**

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). In June 1999, the GASB issued Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. This was followed in November 1999 by GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. The financial statement presentation required by those statements provides a comprehensive, entity-wide perspective of the college's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows, and replaces the fund-group perspective previously required.

Significant accounting changes made in order to comply with the new requirements include (1) adoption of depreciation on capital assets and (2) reporting summer school revenues and expenses between fiscal years rather than in one fiscal year.

**Basis of Accounting**

For financial statement purposes, the college is considered a special-purpose government engaged only in business-type activities. Accordingly, the financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All significant interfund transactions have been eliminated.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not

**Tennessee Board of Regents**  
**Southwest Tennessee Community College**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2003, and June 30, 2002**

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conflict with or contradict guidance of the Governmental Accounting Standards Board. The college has the option of following private-sector guidance issued subsequent to November 30, 1989, subject to the above limitation. The college has elected not to follow private-sector guidance issued subsequent to November 30, 1989.

Amounts reported as operating revenues include (1) tuition and fees, net of waivers and discounts; (2) federal, state, local, and private grants and contracts; (3) sales and services of auxiliary enterprises; and (4) other sources of revenue. Operating expenses for the college include (1) salaries and wages; (2) employee benefits; (3) scholarships and fellowships; (4) depreciation; and (5) utilities, supplies, and other services.

All other activity is nonoperating in nature and includes (1) state appropriations for operations; (2) investment income; (3) bond issuance costs; (4) interest on capital asset-related debt; and (5) gifts.

When both restricted and unrestricted resources are available for use, generally it is the college's policy to use the restricted resources first.

**Inventories**

Inventories are valued at cost. All items are maintained on an average cost or first-in, first-out basis.

**Compensated Absences**

The college's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of these liabilities and their related benefits are reported in the statement of net assets.

**Capital Assets**

Capital assets, which include property, plant, equipment, and library holdings, are reported in the statement of net assets at historical cost or at fair value at date of donation, less accumulated depreciation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful life are not capitalized.

**Tennessee Board of Regents**  
**Southwest Tennessee Community College**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2003, and June 30, 2002**

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A capitalization threshold of \$100,000 is used for buildings, and \$50,000 is used for infrastructure. Equipment is capitalized when the unit acquisition cost is \$5,000 or greater. The capitalization threshold for additions and improvements to buildings and land is set at \$50,000.

These assets, with the exception of land, are depreciated using the straight-line method over the estimated useful lives, which range from 5 to 40 years.

Under a contract with the Tennessee Department of Labor and Workforce Development, the college is the grant recipient for the Local Workforce Investment Area in workforce investment area 13 of the State of Tennessee. The title to all the equipment purchased by the college under the provisions of the Workforce Investment Act resides with the U.S. government. Therefore, this equipment is not included in the college's capital assets.

**Southwest Tennessee Community College Foundation**

The college is the sole beneficiary of the Southwest Tennessee Community College Foundation. A board independent of the college controls this private, nonprofit foundation. The college handles the financial records, investments, and other financial transactions, and the assets and liabilities of the foundation are included on the college's statement of net assets.

**Net Assets**

The college's net assets are classified as follows:

Invested in capital assets, net of related debt – This represents the college's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Nonexpendable restricted net assets – Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may be expendable or added to principal.



**Tennessee Board of Regents**  
**Southwest Tennessee Community College**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 2003, and June 30, 2002**

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Expendable restricted net assets – Expendable restricted net assets include resources which the college is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net assets – Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the college, and may be used at the discretion of the college to meet current expenses for any purpose. The auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty, and staff.

**Scholarship Discounts and Allowances**

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the college and the amount that is paid by the student and/or third parties making payments on the student's behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the college's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the college has recorded a scholarship discount and allowance.

**NOTE 2. CASH**

This classification includes demand deposits and petty cash on hand. At June 30, 2003, cash consisted of \$811,887.53 in bank accounts, \$10,000.00 of petty cash on hand, and \$17,433,191.14 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer. At June 30, 2002, cash consisted of \$462,855.54 in bank accounts, \$10,000.00 of petty cash on hand, \$13,636,528.50 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and \$1,774.55 in LGIP deposits for capital projects.

LGIP deposits for capital projects - Payments related to the college's capital projects are made by the State of Tennessee's Department of Finance and Administration. The college's estimated local share of the cost of each project is held in a separate Local

**Tennessee Board of Regents  
Southwest Tennessee Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2003, and June 30, 2002**

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Government Investment Pool (LGIP) account. As expenses are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the college for any other purpose until the project is completed and the Tennessee Board of Regents releases any remaining funds.

**NOTE 3. DEPOSITS**

The college's deposits are in financial institutions that participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 2003, the carrying amount of the college's deposits was \$811,887.53, and the bank balance including accrued interest was \$2,340,252.98. The bank balance was insured. At June 30, 2002, the carrying amount of the college's deposits was \$462,855.54, and the bank balance including accrued interest was \$3,109,937.68. The bank balance was insured.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 115%, 100%, or 90% of the uninsured deposits at financial institutions participating in the collateral pool. The pledge level is based on financial criteria set by the Collateral Pool Board with the financially strongest institutions being eligible for the lowest pledge level.

The college also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

**Tennessee Board of Regents  
Southwest Tennessee Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2003, and June 30, 2002**

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**NOTE 4. INVESTMENTS**

The college is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the college and that endowment investments be prudently diversified. The Southwest Tennessee Community College Foundation is authorized to invest funds in accordance with its board of directors' policies.

All investments permitted to be reported at fair value under GASB Statement 31 are reported at fair value, including those with a maturity date of one year or less at the time of purchase.

The college's/foundation's investments are categorized below to indicate the level of risk assumed by the college/foundation at year-end. Category 1 consists of insured or registered investments or investments for which the securities are held by the college/foundation or its agent in the college's/foundation's name.

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Category 1:		
Corporate stocks	\$ 3,613.00	\$ 4,120.00
Investments not susceptible to credit risk categorization:		
Mutual funds	17,313.33	17,819.56
Insurance	<u>21,393.53</u>	<u>20,937.45</u>
Total	<u>\$ 42,319.86</u>	<u>\$ 42,877.01</u>

**Tennessee Board of Regents  
Southwest Tennessee Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2003, and June 30, 2002**

**NOTE 5. RECEIVABLES**

Receivables included the following:

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Student accounts receivable	\$ 3,878,783.11	\$ 2,983,091.82
Grants receivable	1,696,217.44	2,997,083.62
Pledges receivable	69,000.00	77,000.00
State appropriation receivable	31,800.00	-
Other receivables	<u>346,042.65</u>	<u>816,108.64</u>
Subtotal	6,021,843.20	6,873,284.08
Less allowance for doubtful accounts	<u>(633,336.00)</u>	<u>(603,622.00)</u>
Total receivables	<u>\$ 5,388,507.20</u>	<u>\$ 6,269,662.08</u>

Pledges receivable are promises of private donations that are reported as accounts receivable and revenue.

Federal Perkins Loan Program funds included the following:

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Perkins loans receivable	<u>\$ 555.97</u>	<u>\$ 639.64</u>
Total	<u>\$ 555.97</u>	<u>\$ 639.64</u>

**NOTE 6. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2003, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$ 4,824,088.63	\$ -	\$ -	\$ -	\$ 4,824,088.63
Land improvements and infrastructure	3,824,530.11	-	-	-	3,824,530.11
Buildings	44,597,765.47	-	-	-	44,597,765.47
Equipment	7,029,336.14	1,140,560.09	-	252,467.20	7,917,429.03

**Tennessee Board of Regents  
Southwest Tennessee Community College  
Notes to the Financial Statements (Cont.)  
June 30, 2003, and June 30, 2002**

Library holdings	2,525,582.91	280,919.27	-	200,393.71	2,606,108.47
Projects in progress	<u>2,412,106.65</u>	<u>211,118.91</u>	<u>-</u>	<u>-</u>	<u>2,623,225.56</u>
Total	<u>65,213,409.91</u>	<u>1,632,598.27</u>	<u>-</u>	<u>452,860.91</u>	<u>66,393,147.27</u>
Less accum. depreciation:					
Land improvements and infrastructure	1,788,102.99	155,862.18	-	-	1,943,965.17
Buildings	16,559,174.75	1,142,633.06	-	-	17,701,807.81
Equipment	4,974,982.18	673,757.91	-	(252,467.20)	5,396,272.89
Library holdings	<u>1,280,639.38</u>	<u>232,518.92</u>	<u>-</u>	<u>(200,393.71)</u>	<u>1,312,764.59</u>
Total accum. depreciation	<u>24,602,899.30</u>	<u>2,204,772.07</u>	<u>-</u>	<u>(452,860.91)</u>	<u>26,354,810.46</u>
Capital assets, net	<u>\$40,610,510.61</u>	<u>(\$572,173.80)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$40,038,336.81</u>

Capital asset activity for the year ended June 30, 2002, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$ 4,824,088.63	\$ -	\$ -	\$ -	\$ 4,824,088.63
Land improvements and infrastructure	4,612,614.24	-	-	788,084.13	3,824,530.11
Buildings	44,801,396.71	742.53	260,000.00	464,373.77	44,597,765.47
Equipment	6,647,026.22	388,895.42	-	6,585.50	7,029,336.14
Library holdings	5,591,541.60	1,266,399.94	-	4,332,358.63	2,525,582.91
Projects in progress	<u>3,103,753.01</u>	<u>1,172,450.93</u>	<u>(260,000.00)</u>	<u>1,604,097.29</u>	<u>2,412,106.65</u>
Total	<u>69,580,420.41</u>	<u>2,828,488.82</u>	<u>-</u>	<u>7,195,499.32</u>	<u>65,213,409.91</u>
Less accum. depreciation:					
Land improvements and infrastructure	1,626,624.46	161,478.53	-	-	1,788,102.99
Buildings	15,416,541.79	1,142,632.96	-	-	16,559,174.75
Equipment	4,366,565.54	608,416.64	-	-	4,974,982.18
Library holdings	<u>1,056,606.30</u>	<u>224,033.08</u>	<u>-</u>	<u>-</u>	<u>1,280,639.38</u>
Total accum. depreciation	<u>22,466,338.09</u>	<u>2,136,561.21</u>	<u>-</u>	<u>-</u>	<u>\$24,602,899.30</u>
Capital assets, net	<u>\$ 47,114,082.32</u>	<u>\$ 691,927.61</u>	<u>\$ -</u>	<u>\$ 7,195,499.32</u>	<u>\$40,610,510.61</u>

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**NOTE 7. LONG-TERM LIABILITIES**

Long-term liabilities activity for the year ended June 30, 2003, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Payables:					
Bonds	\$ 1,879,264.06	\$ -	\$ 91,060.46	\$ 1,788,203.60	\$ 95,208.76
Other liabilities:					
Compensated absences	<u>2,856,490.11</u>	<u>-</u>	<u>3,953.91</u>	<u>2,852,536.20</u>	<u>426,801.92</u>
Total long-term liabilities	<u>\$ 4,735,754.17</u>	<u>\$ -</u>	<u>\$ 95,014.37</u>	<u>\$ 4,640,739.80</u>	<u>\$ 522,010.68</u>

Long-term liabilities activity for the year ended June 30, 2002, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Payables:					
Bonds	\$ 1,692,056.10	\$ 254,702.57	\$ 67,494.61	\$ 1,879,264.06	\$ 91,060.46
Commercial paper	<u>260,000.00</u>	<u>-</u>	<u>260,000.00</u>	<u>-</u>	<u>-</u>
Subtotal	<u>1,952,056.10</u>	<u>254,702.57</u>	<u>327,494.61</u>	<u>1,879,264.06</u>	<u>91,060.46</u>
Other liabilities:					
Compensated absences	<u>2,413,607.03</u>	<u>442,883.08</u>	<u>-</u>	<u>2,856,490.11</u>	<u>956,619.11</u>
Total long-term liabilities	<u>\$ 4,365,663.13</u>	<u>\$ 697,585.65</u>	<u>\$ 327,494.61</u>	<u>\$ 4,735,754.17</u>	<u>\$1,047,679.57</u>

**Bonds Payable**

Bond issues, with interest rates ranging from 4.3% to 5.0% for Tennessee State School Bond Authority bonds, are due serially to 2018 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the college, including state appropriations.

Debt service requirements to maturity for bonds payable at June 30, 2003, are as follows:

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Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 95,208.76	\$ 87,301.01	\$ 182,509.77
2005	99,497.82	83,080.97	182,578.79
2006	103,936.54	78,558.85	182,495.39
2007	109,004.41	73,776.36	182,780.77
2008	113,807.60	68,822.00	182,629.60
2009-2013	622,292.16	257,493.53	879,785.69
2014-2018	644,456.31	102,883.68	747,339.99
	<u>\$ 1,788,203.60</u>	<u>\$ 751,916.40</u>	<u>\$ 2,540,120.00</u>

**NOTE 8. UNRESTRICTED NET ASSETS**

Unrestricted net assets include funds that have been designated or reserved for specific purposes. The unrestricted net assets are composed of the following:

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Working capital	\$ 3,051,656.70	\$ 2,430,961.86
Encumbrances	419,082.85	300,135.90
Designated fees	41,513.43	569,384.16
Auxiliaries	171,407.41	154,275.71
Plant construction	5,509,535.14	4,045,621.12
Renewal and replacement of equipment	6,093,172.89	5,994,467.42
Unreserved/undesignated	<u>(61,819.98)</u>	<u>(748,022.91)</u>
Total	<u>\$ 15,224,548.44</u>	<u>\$ 12,746,823.26</u>

**NOTE 9. ENDOWMENTS**

If a donor has not provided specific instructions to the college, state law permits the college to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, the college is required to consider the college's long-term and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. Any net

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appreciation spent is required to be spent for the purposes for which the endowment was established.

The college's endowment fund is a very nominal amount. The investment portion, which consists of a life insurance policy, has not yet been realized. As of June 30, 2003, the college has not yet adopted a spending plan for the cash portion except that the funds are restricted for student loans and/or scholarships. At June 30, 2003, net appreciation of \$62,253.85 is restricted to specific purposes.

**NOTE 10. PENSION PLANS**

**A. Defined Benefit Plan**

**Tennessee Consolidated Retirement System**

Plan Description - The college contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling (615) 741-8202.

Funding Policy - Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 7.29% of annual covered payroll. Contribution requirements for the college are established and may be amended by the TCRS' Board of Trustees. The college's contributions to TCRS for the years ended June 30, 2003, 2002, and 2001 were \$1,522,862.83, \$1,333,132.22, and \$1,196,216.36. Contributions met the requirements for each year.



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**B. Defined Contribution Plans**

**Optional Retirement Plans (ORP)**

Plan Description - The college contributes to three defined contribution plans: Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly.

Funding Policy - Plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the college to the plans was \$1,028,147.74 for the year ended June 30, 2003, and \$1,044,650.53 for the year ended June 30, 2002. Contributions met the requirements for each year.

**NOTE 11. OTHER POST-EMPLOYMENT BENEFITS**

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible college retirees. This benefit is provided and administered by the State of Tennessee. The college assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

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**NOTE 12. CUMULATIVE EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLE**

During the year ended June 30, 2002, the college implemented GASB Statement 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements—and Management’s Discussion and Analysis—for Public Colleges and Universities*. As a result of this implementation, the college was required to make changes in certain accounting principles, specifically the (1) adoption of capitalization criteria of \$100,000 and \$50,000 for buildings and additions, respectively; (2) adoption of depreciation on capital assets; and (3) recording of certain summer semester revenues between fiscal years rather than in the fiscal year in which the semester was predominantly conducted. The cumulative effects of these changes on net assets are shown below:

Adoption of capitalization criteria for buildings and additions	\$ (5,060,497.76)
Adoption of depreciation on capital assets	\$ (22,466,338.09)
Deferred revenue recognition	\$ 878,033.02

**NOTE 13. INSURANCE-RELATED ACTIVITIES**

The state purchases commercial insurance for real property losses above \$5 million per year and surety bond coverage on the state’s officials and employees. In the past three fiscal years, the state has had no claims filed with the commercial insurer. Designations for casualty losses in the amount of \$3.271 million for incurred losses at June 30, 2003, and \$5 million for deductibles and \$1.356 million for incurred losses at June 30, 2002, were established in the state’s general fund to provide for any property losses not covered by the commercial insurance.

At June 30, 2003, the scheduled coverage for the college was \$83,342,145.00 for buildings and \$34,065,800.00 for contents. At June 30, 2002, the scheduled coverage for the college was \$83,338,800.00 for buildings and \$29,857,324.00 for contents.

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers’ compensation. The college participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging

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a premium to the college based on a percentage of the college's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Since the college participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the college for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The college participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

**NOTE 14. COMMITMENTS AND CONTINGENCIES**

Sick Leave - The college records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$13,199,946.73 at June 30, 2003, and \$12,814,174.88 at June 30, 2002.

Operating Leases - The college has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for real property were \$983,373.20 and for personal property were \$511,347.22 for the year ended June 30, 2003. Amounts for the year ended June 30, 2002, were \$957,012.34 and \$501,959.48. All operating leases are cancelable at the lessee's option.

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Construction in Progress - At June 30, 2003, outstanding commitments under construction contracts totaled \$204,963.74 for Mechanical Upgrades, Fire Safety System, Master Plan, Re-roof three buildings, Power and Air Conditioning, and ADA improvements, of which \$204,963.74 will be funded by future state capital outlay appropriations.

Litigation - The college is involved in two lawsuits, neither of which are expected to have a material effect on the accompanying financial statements.

**NOTE 15. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS**

The college's operating expenses by functional classification for the year ended June 30, 2003, are as follows:

<u>Functional Classification</u>	<u>Natural Classification</u>					<u>Total</u>
	<u>Salaries</u>	<u>Benefits</u>	<u>Other Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	
Instruction	\$20,076,221.38	\$5,078,181.89	\$2,667,724.60	\$391,753.12	\$ -	\$28,213,880.99
Public service	394,936.84	138,355.58	89,598.26	1,139.45	-	624,030.13
Academic support	3,558,451.88	999,242.08	3,448,284.42	142,441.29	-	8,148,419.67
Student services	3,955,933.48	998,810.26	2,937,107.19	356,093.55	-	8,247,944.48
Institutional support	6,665,548.35	1,965,515.37	525,632.55	54,902.86	-	9,211,599.13
Operation & maint.	1,227,816.63	436,762.27	3,908,522.39	-	-	5,573,101.29
Scholar. & fellow.	-	-	104,547.00	8,190,871.08	-	8,295,418.08
Auxiliary	-	-	199,889.94	-	-	199,889.94
Depreciation	-	-	-	-	2,204,772.07	2,204,772.07
Total	<u>\$35,878,908.56</u>	<u>\$9,616,867.45</u>	<u>\$13,881,306.35</u>	<u>\$9,137,201.35</u>	<u>\$2,204,772.07</u>	<u>\$70,719,055.78</u>

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The college's operating expenses by functional classification for the year ended June 30, 2002, are as follows:

<u>Functional Classification</u>	<u>Salaries</u>	<u>Benefits</u>	<u>Natural Classification</u>		<u>Scholarships</u>	<u>Depreciation</u>	<u>Total</u>
			<u>Other</u>	<u>Operating</u>			
Instruction	\$21,969,458.74	\$4,955,390.35	\$2,881,243.19		\$498,567.25	\$ -	\$30,304,659.53
Public service	467,234.98	117,189.41	49,877.68		21.50	-	634,323.57
Academic support	3,417,729.82	886,412.90	2,932,559.45		196,849.49	-	7,433,551.66
Student services	3,931,370.89	955,706.87	2,483,700.89		243,692.77	-	7,614,471.42
Institutional support	6,678,715.99	1,855,592.78	1,578,367.46		178,329.78	-	10,291,006.01
Operation & maint.	1,264,370.51	397,264.62	3,332,218.64		335.00	-	4,994,188.77
Scholar. & fellow.	-	-	618.91		6,441,136.39	-	6,441,755.30
Auxiliary	-	-	194,332.86		-	-	194,332.86
Depreciation	-	-	-		-	2,136,561.21	2,136,561.21
Total	<u>\$37,728,880.93</u>	<u>\$9,167,556.93</u>	<u>\$13,452,919.08</u>		<u>\$7,558,932.18</u>	<u>\$2,136,561.21</u>	<u>\$70,044,850.33</u>

**NOTE 16. PRIOR-PERIOD ADJUSTMENT**

The prior-period adjustment represents the elimination of unsubstantiated accounts receivable that should have been written off in a prior year.

**NOTE 17. UNRECORDED DONATION**

Property located at Wilson Road and Bender was donated to the Tennessee Board of Regents on behalf of the State Technical Institute at Memphis and Shelby State Community College in August 1981. Due to the consolidation of the former institutions to Southwest Tennessee Community College, and pursuant to TBR Policy 4:01:07:02, Section 5, clarification of the donor's intent regarding the holder of the title is being pursued.